FDIC State Profile

Summer 2005

Colorado

Colorado's employment growth rate continued to accelerate in first quarter 2005.

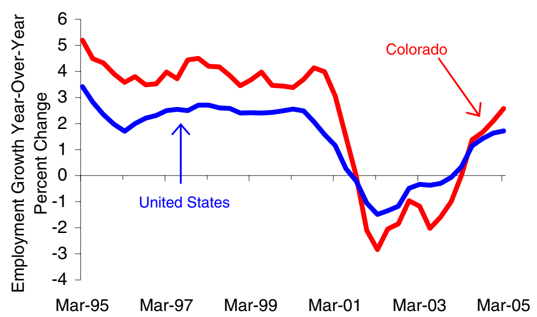
- Colorado's employment growth rate recorded another sharp jump in first quarter 2005, advancing at a year-over-year rate of 2.6 percent compared with a gain of 1.7 percent for the nation (See Chart 1).[1] Employment continues to broaden across most sectors, particularly in construction and energy-related industries. Meanwhile, stalwart sectors like professional and business services, educational and health services, and leisure and hospitality services continue to support state employment with gains of 3 percent or more. One sector that continues to perform poorly, and has worsened recently, is information, which includes the state's troubled telecommunications industry.

- Improved job growth is contributing to tightening labor market conditions around the state. Colorado's unemployment rate of below 5 percent (based on a quarterly average) was the lowest since third quarter 2001. At 4.9 percent in the first quarter 2005, this measure was down 80 basis points from a year earlier and was 40 basis points below the U.S. jobless rate.[2]

Colorado's upward momentum in job growth may stabilize.

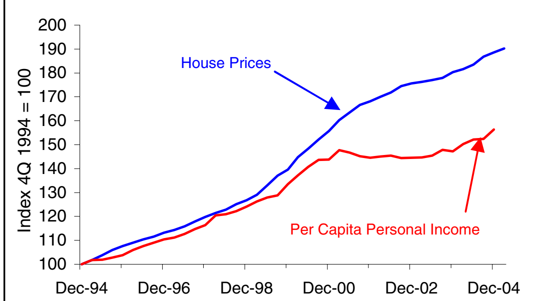
- Several factors suggest that Colorado's employment growth rate may level off for the remainder of 2005. First, according to a consensus forecast of economists U.S. economic growth will moderate this year compared with a year ago.[3] Fluctuations in statewide employment tend to correlate closely with the U.S. economy. Second, Colorado's major industries of telecommunications and computer and electronics manufacturing will continue to act as a drag on the state's economy as a result of consolidation and weak global demand. In addition, high energy prices and the potential for higher short-term rates also could contribute to a moderation in job growth.

Chart 1: As the Colorado Economy Improves, Job Growth Continues to Pull Ahead of the U.S.



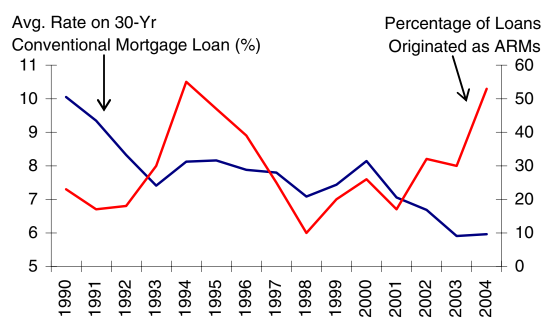
Source: Bureau of Labor Statistics

Chart 2: The Gap between House Prices and Per Capita Personal Income Remains Large



Source: Office of Federal Housing Enterprise Oversight, U.S. Bureau of Economic Analysis

Chart 3: ARMs in Colorado Have Increased Despite Low Rates on Fixed-Rate Mortgages



Sources: Federal Housing Finance Board and Haver Analytics.

[1]Growth rates were calculated using non-seasonally adjusted data from the payroll employment series.
[2]Unemployment rates are seasonally adjusted taken from the household survey.
[3]Blue Chip Economic Indicators June 2005.

Colorado's home price appreciation has substantially exceeded per capita personal income growth.

- Throughout the mid-to-late 1990s, home prices and income in Colorado grew at a somewhat similar pace. However, the gap between house price growth and per capita personal income growth began to diverge significantly starting in 1999 and widened further from 2000 to 2002 (See Chart 2). By fourth quarter 2004, house prices in Colorado had grown 32 percent faster than per capita incomes compared with ten years earlier.
- The severity of the state's recession was a primary reason for the large gap between housing prices and income growth. Significant job losses during the state's recession contributed to the decline in per capita personal income growth that began in first quarter 2002 and continued for the next year. At the same time, housing prices continued to appreciate, albeit at a slower rate.
- In some of the state's markets home prices have grown much faster than income, while in other markets anecdotal evidence suggests that greater numbers of consumers may be stretching for more expensive and larger homes with better amenities. Additionally, many investors are purchasing property for speculation in some parts of the state.
- Despite the widening gap between home price appreciation and per capita personal income growth within the state, housing affordability in Colorado did not deteriorate substantially. Rather, lower mortgage interest rates helped offset much of the effect.

Housing activity could be dampened if mortgage rates were to rise significantly

- Mortgage interest rates continue to remain low defying the expectations of some economists. Despite the Federal Reserve Board's stated policy of gently nudging the federal funds rate upwards, long-term rates have not responded in kind. Nevertheless, the consensus forecast of economists is for mortgage rates to gradually move higher by yearend and continue increasing into 2006 because of a strong U.S. economy and concerns over inflation.[4] Depending upon the state of the Colorado economy at the time, particularly job and personal income growth, rising mortgage rates could have a cooling effect on the state's housing sector.

The popularity of adjustable-rate mortgages (ARMs) has increased despite low rates on fixed mortgages.

- The percentage of Colorado homebuyers using ARMs has dramatically increased over the past several years despite historically low rates offered on long-term fixed-rate mortgages (See Chart 3). Colorado now ranks second in the nation for highest percentage of ARMs among newly originated mortgages.
- Colorado mortgage loans in foreclosure remain among the highest levels in a decade, twice the level reported just four years ago.
- In contrast, Colorado insured institutions continue to report relatively low mortgage loan past-due and charge off rates.

Colorado insured institution financial results show improvement in the first quarter.

- Colorado headquartered banks and thrifts reported a slightly higher median return-on-assets ratio for the first quarter of 2005 benefiting from a rise in the net interest margin. As 72 percent of insured institutions in Colorado hold less than $250 million in assets; earnings of these institutions are driven, in large part, by the net interest margin. Many community financial institutions remain asset sensitive and have benefited from the recent increase in short-term interest rates. As a result, the yield on earning assets has outpaced the cost of funding in the first quarter of 2005 when compared to the same period last year. An improved NIM coupled with a lower provision expense has supported increased profitability
- Past-due and charge-off rates continued to drop to among the lowest levels in a decade. Improving credit quality has contributed to ten-year lows in provision expenses; however, there is little room for further declines in this expense.

[4] Blue Chip Financial Forecast, June 2005.

Colorado at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.6%	0.0%	-1.2%	-2.8%	3.0%
Manufacturing (7%)	0.8%	-3.5%	-6.0%	-10.4%	-1.2%
Other (non-manufacturing) Goods-Producing (8%)	6.8%	-1.7%	-5.1%	-4.5%	6.4%
Private Service-Producing (69%)	2.4%	0.6%	-0.8%	-3.1%	3.4%
Government (16%)	2.2%	-0.2%	1.5%	3.5%	2.1%
Unemployment Rate (% of labor force)	4.9	5.7	6.1	5.9	2.6

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	5.0%	1.0%	0.1%	10.2%
Single-Family Home Permits	10.2%	16.7%	-5.7%	-19.4%	9.8%
Multifamily Building Permits	-27.1%	7.8%	-29.0%	-17.6%	-24.1%
Existing Home Sales	0.7%	7.0%	-8.7%	7.4%	7.6%
Home Price Index	4.7%	3.1%	3.6%	6.1%	10.8%
Bankruptcy Filings per 1000 people (quarterly level)	1.51	1.43	1.25	0.97	0.98

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	176	179	179	185	191
Total Assets (in millions)	40,900	36,911	49,889	51,354	47,794
New Institutions (# < 3 years)	10	12	9	10	9
Subchapter S Institutions	45	43	41	38	36

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.41	1.63	2.06	1.56	1.69
ALLL/Total Loans (median %)	1.16	1.21	1.28	1.28	1.12
ALLL/Noncurrent Loans (median multiple)	2.53	2.03	1.76	2.04	2.18
Net Loan Losses / Total Loans (median %)	0.07	0.07	0.11	0.09	0.08

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	8.56	8.49	8.31	8.25	8.56
Return on Assets (median %)	1.23	1.29	1.35	1.32	1.30
Pretax Return on Assets (median %)	1.71	1.75	1.80	1.82	1.83
Net Interest Margin (median %)	4.89	4.78	4.81	4.96	5.00
Yield on Earning Assets (median %)	7.18	7.17	7.26	7.49	8.03
Cost of Funding Earning Assets (median %)	2.28	2.25	2.45	2.60	2.99
Provisions to Avg. Assets (median %)	0.11	0.12	0.12	0.12	0.12
Noninterest Income to Avg. Assets (median %)	0.84	0.86	0.88	0.86	0.88
Overhead to Avg. Assets (median %)	3.57	3.53	3.52	3.47	3.46

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	63.3	61.1	61.3	63.0	63.8
Noncore Funding to Assets (median %)	15.6	15.9	15.3	14.0	15.5
Long-term Assets to Assets (median %, call filers)	12.2	14.1	14.5	13.1	12.5
Brokered Deposits (number of institutions)	40	34	28	24	25
Brokered Deposits to Assets (median % for those above)	6.4	3.8	3.8	4.1	4.1

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	68.9	68.6	75.8	82.0	84.3
Commercial Real Estate	248.0	214.1	209.7	189.4	185.8
Construction & Development	66.5	48.7	56.3	52.0	50.5
Multifamily Residential Real Estate	4.5	4.9	3.4	2.3	4.1
Nonresidential Real Estate	140.9	123.4	107.6	102.9	98.4
Residential Real Estate	135.4	140.9	139.2	138.3	148.2
Consumer	19.2	25.3	28.9	35.2	40.7
Agriculture	5.2	6.7	5.7	6.1	5.4

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Denver-Aurora, CO	96	35,876	< $250 million	127 (72.2%)
Boulder, CO	29	4,895	$250 million to $1 billion	41 (23.3%)
Colorado Springs, CO	42	4,735	$1 billion to $10 billion	8 (4.5%)
Fort Collins-Loveland, CO	27	3,447	> $10 billion	0 (0%)
Greeley, CO	27	2,253		